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SUBJ: FOREIGN INVESTMENT POLICY AND PRACTICE -
OECD EXAMINATION

REF: A) STATE 118847

B) CANBERRA A-380, DECEMBER 15, 1972

C) CANBERRA 1139, FEBRUARY 20

1. SUMMARY: AUSTRALIA DOES NOT RELY ON SPECIAL FOREIGN INVESTMENT INCENTIVES UNDER REVIEW. HIGH PAST RATE FOREIGN INVESTMENT, ESPECIALLY U. S, ATTRACTED PRIMARILY BY DOMESTIC AUSTRALIAN MARKET OPPORTUNITIES, BEHIND HIGH TARIFF PROTECTION AND UNTIL 1960 EXTENSIVE IMPORT CONTROLS AND BY RICH MINERAL RESOURCES. THESE RE- ENFORCED BY GENERAL WELCOME FOR FOREIGN INVESTORS AND ABSENCE CONTROLS. WHILE FOREIGN INVESTMENT CONTRIBUTES IMPORTANTLY TO AUSTRALIAN EXPORTS MANUFACTURES, THIS WAS BY- PRODUCT, NOT MOTIVE, FOR FOREIGN MANUFACTURING INVESTMENT. FOR THESE REASONS AUSTRALIA NOT GOOD CASE FOR EXAMINATION INVESTMENT PRACTISES IN QUESTION. END SUMMARY.

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2. AUSTRALIA DOES NOT USE SPECIAL FISCAL OR TAX INCENTIVES TO DRAW FOREIGN INVESTMENT. SUCH FAVORABLE TAX AND SUBSIDY TREATMENT AS DOES EXIST APPLIES TO FOREIGN AND DOMESTIC INVESTMENT ALIKE.

3. THE MAIN FACTORS ATTRACTING HIGH LEVEL FOREIGN, AND IN PARTICULAR U. S. INVESTMENT, ARE A VERY HIGH TARIFF LEVEL, ATTRACTIVE DOMESTIC MARKET GROWTH POSSIBILITIES AND IN PAST DECADE OPPORTUNITIES FOR DEVELOPMENT RICH NATURAL RESOURCES. OF EQUAL IMPORTANCE WAS THE EXCEPTIONALLY FRIENDLY ATTITUDE, UNTIL LATE 1972, TO FOREIGN CAPITAL, AND A MINIMUM OF SPECIAL REQUIREMENTS OR CONTROLS -- IN SHORT AN UNUSUALLY OPEN INVESTMENT CLIMATE.

4. AUSTRALIA DOES HAVE NUMEROUS SUBSIDY ARRANGEMENTS. THESE DESCRIBED IN DETAIL IN REFS B AND C. WITH EXCEPTIONS NOTED BELOW, THESE SUBSIDIES MOSTLY DESIGNED BOLSTER DOMESTIC PRODUCTION AGAINST IMPORT COMPETITION. AS SUCH THEY PRESUMABLY DEPRESS AUSTRALIAN IMPORTS OF ITEMS CONCERNED, CONSEQUENTIALLY ENCOURAGING DOMESTIC PRODUCTION .

5. EXCEPTIONS ARE TWO EXPORT- SUPPORTIVE ARRANGEMENTS (A) MARKET DEVELOPMENT ALLOWANCE SCHEME AND (B) EXPORT INCENTIVE GRANTS. AS REPORTED IN DETAIL REFS B AND C, IMPACT THESE TWO SCHEMES ON EXPORT LEVELS ADJUDGED TO RANGE FROM LOW TO MEDIUM. PRINCIPAL SINGLE BENEFICIARY EXPORT INCENTIVE GRANTS IS LARGELY US- OWNED AUTOMOTIVE INDUSTRY, WHICH IS ON RECORD THAT THESE GRANTS ARE IMPORTANT SUPPORT FOR AUSTRALIAN AUTOMOBILE EXPORTS. NOTE HOWEVER THESE EXPORTS OF RIGHT- HAND DRIVE VEHICLES NOT COMPETITIVE WITH DOMESTIC U. S. PRODUCTION. MOREOVER UNDER PRESENT GOVERNMENT, AND GIVEN HIGH CURRENT AUSTRALIAN EXPORT LEVEL, CONTINUATION THESE EXPORT SCHEMES AFTER JUNE, 1974 NOW IN QUESTION, GIVEN PUBLIC OPPOSITION BY PRIME MINISTER AND TREASURER TO THEIR CONTINUANCE.

6. PAST FOREIGN INVESTMENTS, PARTICULARLY U. S. MANUFACTURING AFFILIATES, HAVE MADE LARGE CONTRIBUTION TO AUSTRALIAN MANUFACTURED EXPORTS -- U. S. CONTRIBUTION ESTIMATED IN 1968 AT 1/3 OF TOTAL. NOTWITHSTANDING THIS FACT, SURVEY BY AMCHAM AUSTRALIA OF INVESTMENT MOTIVATION CLEARLY REFLECTS PRIMACY LIMITED OFFICIAL USE

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DOMESTIC MARKET IN REASONS FOR MANUFACTURING INVESTMENT. SITUATION DIFFERENT IN EXTRACTIVE INDUSTRIES INVESTMENT BOOM DURING PAST DECADE, WHERE WORLD RAW MATERIALS MARKETS OBVIOUSLY MAIN OBJECTIVE.

7. GRADUAL WEAKENING OF PAST WELCOME TO FOREIGN CAPITAL IN LAST TWO YEARS CULMINATED UNDER NEW LABOR GOVERNMENT IN

CURRENT ATMOSPHERE OF SKEPTICISM TENDING TOWARD HOSTILITY TO FOREIGN INVESTMENT. THIS REFLECTED IN CLOSE SCREENING OF TAKEOVERS, RESTRICTIONS ON FOREIGN BORROWING AND POSSIBILITY OF FURTHER REGULATORY MEASURES IN FUTURE.

8. AT APPEARS AUSTRALIA' S REMOTE LOCATION VIS- A- VIS MAJOR WORLD MARKETS AND COMPARATIVELY HIGH PRODUCTION COSTS BOTH MAKE USE OF SPECIAL INCENTIVES TO ATTRACT EXPORT INDUSTRY UNLIKELY. COMPARATIVELY SPEAKING, AUSTRALIA' S PASS SUCCESS IN ATTRACTING INVESTMENT ILLUSTRATES EFFECTIVENESS OPEN NON- DISCRIMINATORY INVESTMENT CLIMATE, GIVEN ATTRACTIVE AND PROTECTED MARKET RATHER THAN OF SPECIAL INVESTMENT INCENTIVES. IN THE FORESEEABLE FUTURE THE RISK IN AUSTRALIA OF ECONOMIC DISTORTION THROUGH INVESTMENT POLICY, (AS DISTINCT FROM THE LONG- STANDING DISTORTION OCCASIONED BY ITS EXCESSIVE TARIFF LEVEL) SEEMS MORE LIKELY TO ARISE FROM MOVES AWAY FROM AN OPEN INVESTMENT CLIMATE TOWARD DISINCENTIVES, THAN TO RESULT FROM RESORT TO INCENTIVES, EITHER OVERT OR COVERT.
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